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United States Department *of* Defense



Medical/Surgical Prime Vendor Contract Supporting
Coalition Forces in Iraq and Afghanistan

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Acronyms and Abbreviations

ACPOP	Alternate Commercial Product Ordering Program
ASD(HA)	Assistant Secretary of Defense for Health Affairs
DAPA	Distribution and Pricing Agreements
DLA	Defense Logistics Agency
DSCP	Defense Supply Center Philadelphia
MSPV	Medical/Surgical Prime Vendor
USAMMA	U.S. Army Medical Materiel Agency
USAMMCE	U.S. Army Medical Materiel Center Europe
USAMMC-SWA	U.S. Army Medical Materiel Center - Southwest Asia
USCENTCOM	U.S. Central Command



INSPECTOR GENERAL
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APR 29 2010

MEMORANDUM FOR DIRECTOR, DEFENSE LOGISTICS AGENCY

SUBJECT: Medical/Surgical Prime Vendor Contract Supporting Coalition Forces in Iraq and Afghanistan (Report No. D-2010-055)

We are providing this report for your information and use. We performed this audit in response to the requirements in Public Law 110-181, the FY 2008 National Defense Authorization Act, section 842, which requires the DoD Inspector General to audit DOD logistics contracts supporting coalition forces in Iraq and Afghanistan.

We considered management comments on a draft of this report when preparing the final report. The Commander, Defense Supply Center Philadelphia, comments conformed to the requirements of DOD Directive 7650.3; therefore, we do not need additional comments.

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 604-8866.

Alice F. Carey
Acting Assistant Inspector General
Readiness, Operations, and Support

cc: Commander, Defense Supply Center Philadelphia



Results in Brief: Medical/Surgical Prime Vendor Contract Supporting Coalition Forces in Iraq and Afghanistan

What We Did

Our objectives were to determine whether terms and conditions for the Medical/Surgical Prime Vendor contract were adequately developed and the administration of the contract and delivery orders was effective. The primary ordering facility for medical/surgical supplies used in Iraq and Afghanistan ordered about \$90 million in supplies in FY 2008 from the prime vendor. The contract terms and conditions reviewed in this report include the methodology used to compute rates that recoup the cost of the Medical/Surgical Prime Vendor program and the distribution process used to ship the supplies. In addition, this report focuses on the monitoring of contractor performance portion of contract administration.

What We Found

Terms and conditions for the Medical/Surgical Prime Vendor contract were adequately developed to meet users' needs. We reviewed selected aspects of the contract based on concerns raised by the primary customers and stakeholders. We found the terms and conditions did not need improvement. In addition, Defense Supply Center Philadelphia solicits input from primary customers and stakeholders within the DOD logistics support community to ensure key requirements are incorporated into the contract.

Controls over monitoring the performance of the prime vendor contractor for the Global North Region were generally adequate. However, procedures to monitor credits to ensure DOD obtains the benefit of credits need improvement. The prime vendor did not apply FY 2008 overcharge credits resulting from price verification analyses performed by Defense

Supply Center Philadelphia. As a result, the primary ordering facility for medical/surgical supplies used in Iraq and Afghanistan did not obtain the benefit of an estimated \$65,000 of overcharge credits for FY 2008. In addition, other ordering organizations in the Global North Region and the other regions may not be obtaining due overcharge credits.

What We Recommend

We recommend that the Commander, Defense Supply Center Philadelphia, determine the status of FY 2008 and FY 2009 overcharge credits and ensure the overcharge credits are applied to customers' accounts, develop procedures to ensure the prime vendor notifies customers of credits and that the credits are applied to customers' accounts, and provide estimated milestones for completion of recommendations.

Management Comments and Our Response

The Commander, Defense Supply Center Philadelphia, agreed with the recommendations. Management comments were responsive. Please see the recommendations table on the back of this page.

Recommendations Table

Management	Recommendations Requiring Comment	No Additional Comments Required
Commander, Defense Supply Center Philadelphia		1, 2, and 3

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Introduction

Objectives

The objectives of the audit were to determine whether terms and conditions for the Medical/Surgical Prime Vendor (MSPV) contract were adequately developed and the administration of the contract and delivery orders was effective. Also, this report focuses on the monitoring of contractor performance portion of contract administration. See Appendix A for the scope and methodology and prior coverage related to this report.

We held discussions with activities throughout DOD involved in planning for medical logistics to discuss any concerns that they may have with the terms and conditions of the contract. Specifically, we met with personnel from the offices of the Assistant Secretary of Defense for Health Affairs (ASD[HA]), Army Surgeon General, Army Medical Command, U.S. Army Medical Materiel Agency (USAMMA), U.S. Army Medical Materiel Center Europe (USAMMCE), the 6th Medical Logistics Management Center, Navy Bureau of Medicine and Surgery, the Naval Medical Logistics Command, the Naval Supply Systems Command, the Air Force Surgeon General, and the Air Force Medical Logistics Office. Overall, personnel were pleased with most of the terms and conditions of the contract. However, the rates used to recover costs of the MSPV program were often cited as an area of concern. Accordingly, we decided to focus on the methodology used by the Defense Logistics Agency (DLA) and Defense Supply Center Philadelphia (DSCP) to compute system recovery rates that recoup the costs of the MSPV program. We also decided to review the distribution process used to send medical/surgical supplies to requesting activities in Iraq and Afghanistan.

We performed this audit pursuant to Public Law 110-181, “The National Defense Authorization Act for Fiscal Year 2008,” section 842, “Investigation of Waste, Fraud, and Abuse in Wartime Contracts and Contracting Processes in Iraq and Afghanistan,” January 28, 2008. Section 842 requires “thorough audits … to identify potential waste, fraud, and abuse in the performance of (1) Department of Defense contracts, subcontracts, and task and delivery orders for the logistical support of coalition forces in Iraq and Afghanistan; and (2) Federal agency contracts, subcontracts, and task and delivery orders for the performance of security and reconstruction functions in Iraq and Afghanistan.”

Background

DOD Directive 5101.09, “DoD Executive Agent for Medical Materiel,” August 23, 2004, establishes DLA as the Executive Agent for operating the Class VIII (medical materiel) supply chain. DLA delegated the day-to-day responsibility to execute the Class VIII supply chain to DSCP. One mission of DSCP is to ensure that the warfighter has all Class VIII medical surge and sustainment materials needed in support of military or humanitarian operations.

DSCP provides medical supplies through the MSPV program to DOD military treatment facilities worldwide. The MSPV program consists of three TRICARE global regions (North, South, and West) to provide routine ordering capability throughout the world. One purpose of the MSPV program is to distribute medical supplies on a next-day delivery basis. The MSPV contract for the Global North Region includes support to the military in Iraq and Afghanistan within the U.S. Central Command (USCENTCOM) area of responsibility.

U.S. Army Medical Materiel Center - Southwest Asia (USAMMC-SWA) in Doha, Qatar, is the Theater Lead Agent for Medical Materiel in the USCENTCOM area of responsibility. As the lead agent, USAMMC-SWA is responsible for executing Class VIII storage and distribution. Customers in Iraq and Afghanistan place an order for medical supplies with USAMMC-SWA. If the item is not in stock, USAMMC-SWA orders the supplies from USAMMCE, located in Pirmasens, Germany. If USAMMCE does not have the item, an order is placed using the MSPV contract. The prime vendor fills the order, packages the items for shipment, and delivers the order to the prime vendor distribution center dock for pickup by a Government-supplied carrier for shipping. At this point, the shipment becomes the responsibility of the Government, and the requested item is shipped to USAMMCE. USAMMCE then either replenishes its stock to replace supplies distributed or forwards the items to USAMMC-SWA for delivery to the unit via Military Air Transportation.

Table 1 shows the total FY 2008 cost of the Global North Region contract, cost of USAMMCE orders that include items ordered for USAMMC-SWA, and direct shipments into Iraq and Afghanistan. Our review focused on USAMMCE orders because of its role in supporting USAMMC-SWA.

Table 1. FY 2008 Cost of Global North Region Medical Supplies		
Area	Cost	Percentage of Cost
Global North Region	\$294,286,032	100.00
USAMMCE	89,556,341	30.43
Iraq and Afghanistan	145,475	0.05

Prices for supplies available through the MSPV program are established under DSCP Distribution and Pricing Agreements (DAPAs). DSCP negotiates DAPAs with manufacturers or distributors of medical surgical supplies, providing uniform supply pricing for all DSCP prime vendor customers. DAPA catalogs are updated monthly with new products and price changes effective the first day of the following month. In addition, the Alternate Commercial Product Ordering Program (ACPOP) is designed to give customers access to items not covered by a DAPA.

The annual cost of medical and surgical supplies provided to USAMMCE under the MSPV contract, including supplies destined for USAMMC-SWA, is shown in Table 2.

Table 2. USAMMCE Medical/Surgical Supplies		
Fiscal Year	Delivered Quantity	Cost
2006	923,732	\$ 41,922,684
2007	2,528,608	107,206,873
2008	1,833,797	89,556,341

Review of Internal Controls

DOD Instruction 5010.40, “Managers’ Internal Control (MIC) Program Procedures,” January 4, 2006, requires DOD organizations to implement a comprehensive system of internal controls that provides reasonable assurance that programs are operating as intended and to evaluate the effectiveness of the controls. Although internal controls were generally adequate, we identified an internal control weakness for Defense Supply Center Philadelphia. DSCP did not monitor the prime vendor’s procedures to quantify overcharge credits and notify ordering customers of them, instead relying on customers to identify when the prime vendor was not complying with the requirements of the contract. Implementing Recommendation 1 should improve internal controls of overcharge credits to ensure the prime vendor contractor complies with contract requirements regarding overcharge credits and DOD can obtain the benefit of credits. A copy of the report will be provided to the senior officials responsible for internal controls, specifically the Senior Procurement Executive at DLA Headquarters and the Head of Contracting Activity at DSCP.

Finding. Medical/Surgical Prime Vendor Contract

Terms and conditions for the Medical/Surgical Prime Vendor contract were adequately developed to meet users' needs. In addition, controls over monitoring the performance of the prime vendor contractor for the Global North Region were generally adequate.

However, procedures to monitor credits to ensure DOD obtains the benefit of credits need improvement. Specifically, the prime vendor did not apply FY 2008 overcharge credits to the USAMMCE account. As a result, USAMMCE, the primary ordering facility for medical/surgical supplies used in Iraq and Afghanistan, did not obtain the benefit on an estimated \$65,000 of overcharge credits for FY 2008. In addition, other ordering organizations in the Global North Region and the other regions may not be obtaining due overcharge credits. Improving controls over monitoring the prime vendor's performance will ensure overcharge credits are quantified and the customers are notified of available credits.

Contract Terms and Conditions

We did not identify terms and conditions in the MSPV contract that needed improvement. We solicited comments from key stakeholders to identify areas in the current MSPV contract that could be improved. Considering the comments, we focused on the system recovery rate and the supply distribution process. We found that DSCP solicits input from primary customers and stakeholders within the DOD logistics support community, to ensure key requirements are incorporated into the contract.

System Recovery Rate

The methodology used to formulate the cost recovery rate, a portion of the system recovery rate, complied with DLA guidance and the computations supporting the rate were accurate. The system recovery rate is applied to purchases made by activities in Iraq and Afghanistan to recover costs that DLA and DSCP incur while buying materiel and selling it to the customer. The system recovery rate is the cumulative total of the MSPV program cost recovery rate for Outside Continental United States and materiel-related costs that are charged to the customer. The cost recovery rate portion of the system recovery rate includes costs such as labor costs, depreciation, surcharges, and sustainment costs of materiel that DSCP incurs while buying materiel and selling it to the customer. Materiel-related costs are any costs incurred for an item before it can be sold, such as first destination transportation and assembly-related costs. DSCP is responsible for developing and annually reassessing the cost recovery rate based on historical budget data from the previous year. The FY 2009 MSPV Outside Continental United States cost recovery rate portion of the system recovery rate is 11.5 percent and the materiel-related costs rate is 17.4 percent. The total combined system recovery rate charged to ordering activities in Iraq and Afghanistan was 28.9 percent.

Supply Distribution Process

We planned to review different options that the prime vendor and DSCP could use to deliver medical surgical supplies to their customers in Iraq and Afghanistan. However, we discovered that the Commanding General, U.S. Army Medical Research and Materiel Command, was sponsoring a RAND Corporation study of the Class VIII medical supplies distribution structure for all supplies being distributed into Iraq and Afghanistan. Based on the plans for the study, we decided not to review the contract delivery process to avoid duplication of effort.

The objective of the RAND Corporation study was to “Evaluate whether changes in the USCENTCOM medical supply distribution structure would lead to decreased costs and/or improved performance of the theater health service support system.” The study will directly review options for distributing medical logistics supplies through different methods than those currently used. The study will determine and compare distribution times and costs for sending medical supplies from each of the distribution nodes (prime vendor, USAMMCE, and USAMMC-SWA) to the USCENTCOM area of responsibility. The study will also determine and compare the costs of using the current medical logistics structure and potential costs to use the non-medical logistics structure for medical supplies. The study report is expected to be released in April 2010.

Coordination of Terms and Conditions

DSCP solicits input from multiple agencies and activities during the contract planning phases to ensure incorporation of valid requirements in the contract. DSCP coordinated with personnel from the Offices of the Surgeon General and medical logistics personnel within the Office of the ASD(HA) and the Military Departments. For example, based on minutes of meetings for the next generation contracts, coordination meetings were held with representatives from U.S. Army Medical Command, the Air Force Medical Operations Agency, the Defense Medical Logistics Standard Support Program Office, the Joint Medical Logistics Functional Development Center, and the Naval Medical Logistics Command. DSCP coordinates with these activities for each new generation of the MSPV contract. During these planning phases, DSCP reviews and incorporates any additional needs the activities may have into the contract as well as removing any terms and conditions that should no longer apply. By performing this extensive coordination, DSCP helps to ensure that the customers’ and stakeholders’ needs for the contract are met.

Prime Vendor Performance

Controls over monitoring the performance of the prime vendor contractor for the Global North Region were generally adequate. However, procedures to monitor credits to ensure DOD obtains the benefit of the credits need improvement. Specifically, the prime vendor did not apply FY 2008 overcharge credits resulting from price verification analyses. This occurred because DSCP did not monitor the prime vendor’s procedures to quantify and notify ordering customers of overcharge credits. As a result, USAMMCE, the primary ordering facility for medical/surgical supplies used in Iraq and Afghanistan, was not

aware of an estimated \$65,000 in overcharge credits for FY 2008 and therefore did not use the credits.

Surveillance Procedures

DSCP ensures prime vendor compliance with contract requirements through multiple processes. Annual assessments review selected aspects of the prime vendor performance. Quarterly compliance audits determine whether the pricing and non-pricing performance metrics meet established levels. In addition, the contract management plan monitors three major metrics of contract performance: customer satisfaction, fill rate, and pricing accuracy. In FY 2009, the DLA Center for Excellence and Pricing began doing the pricing portion of the annual assessments and compliance audits and DSCP continued doing the non-pricing annual assessment and compliance audits.

Annual Assessments and Compliance Audits

The annual assessments and quarterly compliance audits performed by DSCP reported issues concerning the ACPOP pricing instrument for products used by the prime vendor. The ACPOP program was conceived to reduce local purchase actions by customers and provide greater visibility of acquisitions made by customers. ACPOP was intended to be the pricing instrument of last resort.

The FY 2008 annual assessment identified where customers inappropriately used the ACPOP. The DSCP Compliance Division's preliminary research indicated approximately 46 percent of procurements that fall into ACPOP are the result of customer failure to identify the correct DAPA information when placing an order. The compliance audits reported that the ACPOP action plan, which was designed to move items onto DAPA pricing agreements, has had a positive impact on decreasing the quantity of items ordered through ACPOP and progress has been made between each compliance audit.

DSCP plans for resolving the ACPOP problems by doing away with ACPOP pricing in the next generation, 2010, of the MSPV contracts. DSCP sent letters to the companies that fill the majority of the ACPOP orders informing them that the ACPOP pricing will not be included in the next generation of contracts and providing information on how to enter into a DAPA agreement.

Contract Management Plan

The contract management plan for the MSPV program is an effective mechanism for monitoring the key performance requirements of the MSPV contract. The plan, established June 4, 2008, uses a systematic approach to monitor key performance criteria by focusing on customer satisfaction, fill rate, and pricing accuracy.

Customer Satisfaction

Customers appear generally satisfied with the service provided by the prime vendor. Interviews with USAMMCE personnel indicated they had no complaints with the level of service provided by the prime vendor. The number of customer service issues is minimal compared with the volume of orders. In addition, aged service ticket reviews do not

indicate systemic problems with customer satisfaction. Although USCENTCOM Surgeon General personnel stated they did not have direct contact with the prime vendor, they are generally satisfied with the medical supply support they receive.

DSCP monitors customer satisfaction by informal customer contacts as well as formal surveys. DSCP also has monthly teleconferences with USAMMCE to monitor the resolution of outstanding issues. Monthly meetings held with the DSCP Commander focus on the top unfilled orders. The Customer Facing Division responds to and tracks the status of customer issues, using the Dashboard System as a focus tool to capture customer service issues.

The number of customer service issues for USAMMCE was minimal compared with the total line items ordered by USAMMCE in FY 2008. Of the 329 customer service tickets in FY 2008 for the Global North Region contract, USAMMCE submitted 151. A customer service ticket may involve one or more line items. USAMMCE ordered 64,836 line items in FY 2008. Based on the number of line items ordered, we consider the 151 customer service tickets minimal. The 151 customer service tickets for USAMMCE were divided into 22 categories, with customers wanting to know the status of their order representing the largest category with 74 issues.

DSCP acknowledges that delivery timeliness could be improved. DSCP holds monthly Aged Service Ticket Review meetings that include a selection of the oldest three customer service tickets from the Customer Facing Division. As of November 2008, 17 aged service tickets had been reviewed by DSCP and categorized as shown below:

- 6 Delivery status update,
- 2 Expedite order,
- 1 Award delayed,
- 2 Vendor price change and modification needed,
- 1 No vendor contract,
- 1 Medical supplies needed for deployment,
- 2 Ticket closed, and
- 2 Canceled by buyer - Contract had minimum order quantity.

The review identified a variety of reasons for the customer service tickets. Based on the variety, the service tickets did not identify a systemic customer satisfaction problem.

Fill Rate

The prime vendor met the FY 2008 order fill rate required by the contract. Customers provide updated usage data each month, which is a listing of supplies and quantities the customers expect to use that month. The fill rate measures the prime vendor's ability to fulfill the expected customer's usage data. The contract states that 90 percent is the minimum monthly fill rate requirement for ordering facilities. Because the fill rate is based in part on estimates provided by ordering facilities, a lower rate could result from factors beyond the prime vendor control. For example, customers who did not keep current usage data information or failed to acknowledge receipt of shipment could reduce

the rate. The rate is an indicator of conditions to explore and resolve. Our review of FY 2008 fill rate reports for the Global North Region prime vendor showed that the annual fill rate was 91.6 percent.

Pricing Accuracy

DSCP evaluates the prices charged by the prime vendor to ensure compliance with pricing policies identified in the contract. The Global North Region contract states that the prime vendor shall provide all medical/surgical products as a distributor under a designated contract. The types of designated contracts include ACPOP and DAPA.

To determine whether prices charged for ACPOP items are fair and reasonable, DSCP personnel stated they review monthly the top 75 percent of ACPOP sales, and sample from the remaining 25 percent. To accomplish this review, DSCP personnel perform research, call manufacturers, and compare prices with distributors. In addition, prices are compared with DAPA, the DOD Master Catalog, the GSA Web site, and Federal Supply Schedule prices. DSCP estimates about 70 percent of the items reviewed monthly have fair and reasonable prices and the remaining 30 percent are sent back to the prime vendor for price renegotiation.

Items ordered through the DAPA process are reviewed each month when the prime vendor submits customers' consumption data into the Customer Demand Management Information Application. This program includes a tool that compares the consumption data invoice price with the price in effect on the date the order was placed. Line items with prices higher than DAPA prices are identified in a potential overcharge report. DSCP provides this report to the prime vendor for comment. The prime vendor either agrees the potential overcharge is valid or disputes the potential overcharge and provides comments to DSCP. After DSCP and the prime vendor agree to the potential overcharges, the prime vendor distribution center that originally filled the order calculates the amount of the credit. The prime vendor is responsible for notifying the customer of the overcharge credit and posting the credit to the customer's account.

Overcharge Credits

The prime vendor did not apply FY 2008 overcharge credits to the USAMMCE account. This occurred because DSCP did not have procedures in place to track or follow up on the processing of overcharge credits. As discussed above, DSCP pricing accuracy procedures end with the agreement of potential overcharges. The calculation, application, and use of credits after this point were left up to the prime vendor and the customers.

Neither DSCP nor the prime vendor could provide the FY 2008 calculated overcharge credits for USAMMCE. We reviewed potential pricing overcharge reports and USAMMCE credit reports issued by the prime vendor, but could not determine whether the potential credits were processed. In addition, discussions with USAMMCE personnel showed they were not aware of any credits associated with the potential overcharge credits. We presented a list of potential credits to the prime vendor to track down the status. Based on its review, the prime vendor acknowledged that it appears the credits were not posted. The prime vendor also stated that it was working to correct the problem.

To estimate the amount of the credits, we obtained the monthly potential overcharge reports for FY 2008 that contained overcharge items agreed upon by DSCP and the prime vendor (without computed credit amounts). We calculated overcharge amounts for each credit, an estimated \$457,000 for the Global North Region. We extracted 460 line items associated with USAMMCE overcharges and estimate USAMMCE did not receive about \$65,000 in overcharge credits for FY 2008. Our review was limited to one customer in one region, but without controls in place, there is the risk that other customers and other regions may not be receiving the benefits of overcharge credits.

Recommendations, Management Comments, and Our Response

We recommend that the Commander, Defense Supply Center Philadelphia:

- 1. Determine the status of FY 2008 and FY 2009 overcharge credits and ensure the credits are applied to customers' accounts.**

Defense Supply Center Philadelphia Comments

The Commander, Defense Supply Center Philadelphia, agreed with Recommendation 1 and stated that Defense Supply Center Philadelphia personnel will research and determine the status of all FY 2008 and FY 2009 overcharge credits. They will work directly with the prime vendor and customers to ensure that all overcharge credits are applied to the appropriate customers' accounts.

- 2. Develop procedures to ensure the prime vendor notifies customers of credits and that the credits are applied to customers' accounts.**

Defense Supply Center Philadelphia Comments

The Commander, Defense Supply Center Philadelphia, agreed with Recommendation 2 and stated that Defense Supply Center Philadelphia personnel will develop and implement procedures to ensure the prime vendor notifies customers of credits and that credits are applied to customers' accounts.

- 3. Provide estimated milestones for completion of Recommendations 1 and 2.**

Defense Supply Center Philadelphia Comments

The Commander, Defense Supply Center Philadelphia, agreed with Recommendation 3 and provided an estimated completion date of April 30, 2010, to accomplish the actions required for Recommendations 1 and 2.

Our Response

We consider the Commander's comments to be responsive. No further comments are required.

Appendix. Scope and Methodology

We conducted this performance audit from September 2008 through December 2009 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. This final report was delayed approximately one month because we granted DSCP's request to extend the due date to comment on the draft report due to their involvement in the Haiti relief effort. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We interviewed personnel at DLA and DSCP to identify policies and procedures relevant to the Medical/Surgical Prime Vendor program. We determined the procurement and payment process for associated prime vendor contract. At DSCP we obtained information on customer satisfaction, consumption data, potential overcharges, price verification, fill rate reporting, and compliance with contract requirements. We also spoke with personnel from the Global North Region prime vendor to discuss the posting of credits resulting from overcharges. During the audit the Global North Region prime vendor was Owens & Minor Inc., contract number SP0200-05-D-7000.

We define prime vendor contract terms and conditions as requirements on how the contractor provides the medical/surgical supplies, such as shipping and billing terms. We met with personnel from the offices of the Assistant Secretary of Defense for Health Affairs (ASD[HA]), Army Surgeon General, Army Medical Command, U.S. Army Medical Materiel Agency (USAMMA), U.S. Army Medical Materiel Center Europe (USAMMCE), the 6th Medical Logistics Management Center, Navy Bureau of Medicine and Surgery, the Naval Medical Logistics Command, the Naval Supply Systems Command, the Air Force Surgeon General, and the Air Force Medical Logistics Office to identify stakeholder concerns with the prime vendor process of obtaining Class VIII supplies, including the process to distribute supplies to Iraq and Afghanistan.

We reviewed public laws and DOD directives and regulations to identify requirements pertaining to pricing, logistics, purchasing, delivery, oversight, and terms and conditions of the MSPV program. Specifically, we reviewed Public Law 110-181, section 842, "Investigation of Waste, Fraud, and Abuse in Wartime Contracts and Contracting Processes in Iraq and Afghanistan," January 28, 2008; DOD Directive 5105.22, "Defense Logistics Agency," May 17, 2006; DOD Directive 5101.9, "DOD Executive Agent for Medical Materiel," August 23, 2004; Federal Acquisition Regulation, Subpart 4.8, "Government Contract Files"; section 2533a, title 10, United States Code, "Requirement to Buy Certain Articles from American Sources"; Army Regulation 40-61, "Medical Services: Medical Logistics Policies," January 28, 2005; Navy Policy Letter 4200, "Committed Use Requirements Contracts," January 4, 1999; and Air Force Instruction 41-209, "Health Services: Medical Logistics Support," April 10, 2007.

We reviewed the Global North Region prime vendor contract and the contract management plan to identify controls DSCP used to monitor prime vendor performance.

We evaluated the controls by reviewing procedures and performing selected tests of the prime vendor compliance with contract requirements regarding pricing overcharges. Our review used data for the Global North Region for FY 2006 through FY 2008 and price verification summary reports for FY 2008. We reviewed each monthly report using the guidelines provided by DSCP to determine the accuracy of the reports.

We reviewed 12 months of Global North Region potential overcharge data for FY 2008 and determined the potential overcharges for USAMMCE. Additionally, we obtained FY 2008 USAMMCE credits from the prime vendor and compared 5 months of potential overcharge data to credits. We also reviewed FY 2008 Fill Rate Reports for trends or patterns. We met with DSCP personnel to discuss customer satisfaction with the MSPV program. We compared the customer service issues filed by USAMMCE with its consumption data to determine whether the relative magnitude of customer complaints was significant.

Use of Computer-Processed Data

We used computer-processed data from: Customer Demand Management Information Application 2, DASHBOARD System, and the Electronic Business System. These systems are used by DSCP to manage the MSPV program. The volume of transactions included in these systems precluded a formal reliability assessment of computer-processed data. However, we used summary reports generated by the systems to identify consumption data, fill rates, customer complaints, potential overcharges, and price verification. Comparing the summary reports with information obtained from USAMMCE and the prime vendor was adequate to determine that credits were not quantified and posted. We did not use the data produced by these systems to make any statistical projections or perform evaluations at the transaction level. We do not believe that not evaluating the reliability of the computer-processed data materially affected the results of our review.

Prior Coverage

During the last 5 years, the Government Accountability Office (GAO) issued two reports discussing the Medical/Surgical Prime Vendor contracts. Unrestricted GAO reports can be accessed over the Internet at <http://www.gao.gov>.

GAO

GAO Report No. 07-396R, "Defense Management: DLA Has Made Progress in Improving Prime Vendor Program, but Has Not Yet Completed All Corrective Actions," February 26, 2007

GAO Report No. 06-739R, "Defense Management: Attention is Needed to Improve Oversight of DLA Prime Vendor Program," June 19, 2006

Defense Supply Center Philadelphia Comments



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IN REPLY
REFER TO D

JAN 21 2010

MEMORANDUM FOR DEFENSE LOGISTICS AGENCY, ATTN: J-72

SUBJECT: DOD IG Draft Report on Medical/Surgical Prime Vendor Contracts Supporting Coalition Forces in Iraq and Afghanistan (Project No. D2008-D000LF-0267.000)

Reference is made to DLA-DA e-mail dated January 4, 2010, subject as above. We have completed our review of the DOD IG Report on Medical/Surgical Prime Vendor Contracts Supporting Coalition Forces in Iraq and Afghanistan and our response to the recommendations are as follows:

a. Recommendation 1: Determine the status of FY 2008 and FY 2009 overcharge credits and ensure the credits are applied to customers' accounts.

Response: Concur. DSCP will research and determine the status of all FY 2008 and FY 2009 overcharge credits and work directly with the prime vendor and the applicable customers to ensure that all overcharge credits were applied to the appropriate customers' accounts.

b. Recommendation 2: Develop procedures to ensure the prime vendor notifies customers of credits and that the credits are applied to customers' accounts.

Response: Concur. DSCP will develop and implement procedures to ensure the prime vendor notifies customers of, and applies, due credits to their accounts.

c. Recommendation 3: Provide estimated milestones for completion of Recommendations 1 & 2.

Response: Estimated completion date for action on both recommendations is no later than April 30, 2010.

Point of contact for this action is [REDACTED] Internal Audit, [REDACTED] DSN [REDACTED] or e-mail: [REDACTED]@dla.mil.

SCOTT D. CHAMBERS
Brigadier General, USAF
Commander



Inspector General Department of Defense